

REPORT NO. 484

**INCREASE IN THE RATE OF CUSTOMS DUTY
ON PAPER AND PAPERBOARD COATED,
IMPREGNATED OR COVERED WITH PLASTIC
AND OTHER PAPER AND PAPERBOARD,
CELLULOSE WADDING AND WEBS OF
CELLULOSE FIBRES**

International Trade Administration Commission herewith presents its Report No 484: **Increase in the rate of customs duty on paper and paperboard coated, impregnated or covered with plastic and other paper and paperboard cellulose wadding and webs of cellulose fibres, with recommendation.**



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA

REPORT NO. 484

**INCREASE IN THE RATE OF CUSTOMS DUTY ON PAPER AND
PAPERBOARD COATED, IMPREGNATED OR COVERED WITH PLASTIC
AND OTHER PAPER, PAPERBOARD, CELLULOSE WADDING AND WEBS
OF CELLULOSE FIBRES**

Synopsis

Nampak Flexible Limited applied for an increase in the rate of customs duty on certain paper and paperboard coated, impregnated or covered with plastic, classifiable under tariff subheading 4811.59.90, and certain paper, paperboard, cellulose wadding and webs of cellulose fibres classifiable under tariff subheading 4811.90.90 from free of duty to 5% *ad valorem* through the creation of additional 8-digit tariff subheadings.

The Commission considered the application in the light of the information at its disposal and found that low-priced imports of flexible packaging products into the SACU have eroded the domestic industry's market share and that significant price disadvantages experienced by the domestic producers combined with considerably underutilized manufacturing capacity of the domestic producers has detrimentally affected the profitability of the industry.

The Commission concluded that an increase in the rate of duty on the subject products would improve the domestic industry's utilisation of production capacity and price-competitive position in the face of stiff competition from abroad without having an undue cost-raising impact on downstream industries and consumers.

The Commission decided that the duty be reviewed after a period of five years, to determine its impact on the industry's further development, competitive position, and on the full industry value chain.

The Commission recommends that the rate of duty on paper and paperboard fibres combined with plastic film, printed and the thickness of the plastic film may not exceed fifty microns; and other paper and paperboard, cellulose wadding and webs of cellulose fibres, combined with metal foil, printed and the thickness of the metal foil may not exceed fifteen micron, classifiable under tariff subheadings 4811.90.90 and 4811.59.90 respectively, be increased to 5% *ad valorem*.

1. THE APPLICATION AND TARIFF POSITION

1.1. Nampak Flexible Limited applied for an increase in the rate of customs duty on certain paper and paperboard coated, impregnated or covered with plastic, classifiable under tariff subheading 4811.59.90, and certain paper, paperboard, cellulose wadding and webs of cellulose fibres classifiable under tariff subheading 4811.90.90 from free of duty to 5% *ad valorem* through the creation of additional 8-digit tariff subheadings.

1.2. As reasons for the application, the applicant stated that:

Flexible packaging faces tough competition from imports and very little protection, whilst the cost of raw materials increases. Significant market share has been lost to imports in recent years leading to part of the core business being shut down. The pressure from lower priced imports has also resulted in the applicant being forced to drop prices to below cost. The lack of customs duty protection places immense pressure on the business as margins are substantially reduced whilst other operating costs continue to rise.

1.3. The existing tariff structures for paper and paperboard coated, impregnated or covered with plastic, and other paper, paperboard, cellulose wadding and webs of cellulose fibres read as follows:

CHAPTER 48		PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD					
Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
4811.5		Paper and paperboard coated, impregnated or covered with plastics (excluding adhesives)					
	4811.59.90	Other	Kg	Free	Free	Free	Free
4811.90		Other paper, paperboard, cellulose wadding and webs of cellulose fibres					
	4811.9090	Other	Kg	Free	Free	Free	free

1.4. The requested tariff structure is as follows:

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
4811.59		Other					
	4811.59.xx	Paper and paperboard fibres combined with plastic film, printed and the thickness of the plastic film may not exceed fifty microns	Kg	5%	Free	Free	Free
4811.90		Other paper, paperboard, cellulose and wadding and webs of cellulose fibres					
	4811.90.xx	Other Paper and paperboard, cellulose and wadding and webs of cellulose fibres, combined with metal foil, printed and the thickness of the metal foil may not exceed fifteen micron	Kg	5%	Free	Free	Free

1.5. The application was published in the Government Gazette on 23 May 2014 for comments by interested parties.

2. INDUSTRY AND MARKET

- 2.1 Flexible packaging refers to a package or container made of flexible or easily yielding materials that when filled and sealed, can readily acquire a flexible shape. It normally includes bags, pouches, or wraps made of materials such as paper, plastic film, foil or combinations of these materials.
- 2.2 Specifically, the subject products are soup laminates, margarine wrappers, soap wrappers and spice packaging.
- 2.3 Soup packaging and Margarine wrappers are comprised of paper, polymer, and foil laminates, of which paper is the thickest substrate.
- 2.4 Soap packaging and Spice packaging are comprised of polyester paper and cast polypropylene laminates. Paper also makes up the thickest substrate in the lamination of the products.

2.5 Figure 1 below illustrates the position of the products in the value chain of the manufacturing of packaging products:

Position of flexible packing material in the value chain



- 2.6 The products in question are manufactured from adhesives, films, inks, paper, foil, resins and polypropylene through the process of extrusion and lamination. The product can also be made by laminating paper to foil using adhesive lamination.
- 2.7 The production of flexible packaging consists of a three step process: lamination, printing and slitting. The process of lamination involves joining together of different layers according to the desired end use.
- 2.8 The lamination process is then followed by printing of the laminated product. The two methods used in the printing process are flexographic and rotogravure. Rotogravure is a type of printing process which involves engraving the image onto laminated layers, whilst flexographic printing is essentially a modern version of printing which can be used for printing on almost any type of substrate, including plastic, metallic films, cellophane and paper.
- 2.9 The final step in the production of flexible packaging products involves slitting the large parent roll produced in the earlier processes into smaller reels as per customer requirements to ensure packaging is compatible for its intended use.
- 2.10 Apart from the applicant, there are several domestic manufacturers of flexible packaging products, namely: Afripack, Everest Packaging, and CTP Flexible. The Printing Industries Federation of South Africa (PIFSA) is a registered trade organisation and is recognized as the official representative of the industry.
- 2.11 There are two distinct categories of manufacturers in the SACU. The one category includes manufacturers that import readily laminated materials that are ready for printing and slitting. The other category includes integrated manufacturers.
- 2.12 The applicant is the only manufacturer in the SACU that carries out all three steps of the manufacturing process.
- 2.13 The applicant employs 804 people of which 100 are directly involved in the manufacture of the products under review.

2.14 The tables below show estimated market shares for the subject products as submitted by the applicant.

Soup packaging 4811.59.90

	2011	2012	2013
Market size (Kg)	860 000 kg	1 422 000 kg	1 717 000 kg
Value (R)	R39 567 000	R69 681 000	R86 963 000
Nampak Flexible	67%	55.5%	32.5%
Afripack	0%	0%	18%
Other Local Manufacturers	17%	17%	17%
Imports	16%	27.5%	32.5%

Margarine Wrappers 4811.59.90

	2011	2012	2013
Market size (Kg)	1 051 000 kg	1 232 000 kg	1 467 000 kg
Value (R)	R58 124 000	R96 000 000	R96 020 000
Nampak Flexible	45%	34%	27%
Afripack	10%	10%	20%
Other Local Manufacturers	44%	54%	49%
Imports	1%	2%	4%

Soap Packaging

	2011	2012	2013
Market size (Kg)	1 180 000 kg	1 400 000 kg	1 720 000 kg
Value (R)	R75 780 000	R96 000 000	R96 020 000
Nampak Flexible	25%	1%	5%
Afripack	0%	0%	0%
Other Local Manufacturers	2%	2%	2%
Imports	73%	97%	93%

Spice packaging

	2011	2012	2013
Market size (Kg)	458 000	284 000	472 000
Value (R)	R26 398 000	R21 622 000	R29 060 000
Nampak Flexible	92%	94%	98%
Afripack	6%	4%	0%
Other Local Manufacturers	2%	2%	2%
Imports	0%	0%	0%

3. COMPETITIVE POSITION

3.1. The Commission found that the applicant is experiencing price disadvantages vis-à-vis foreign producers of the products in question, especially from those in India and China.

4. COMMENTS ON THE APPLICATION

4.1. Printing Industries Federation of SA (PIFSA) and Afripack (Pty) Ltd expressed support for the application. However, the Government of Botswana, the National Agricultural Marketing Council (NAMC), Unilever and Tiger Brands objected to the application stating that the applicant does not have sufficient capacity to satisfy the SACU market and that the requested level of customs duty would increase the price of the products to the downstream industries.

5. **FINDINGS**

- 5.1. The Commission considered the application in the light of the information at its disposal and found that low-priced imports of flexible packaging products into the SACU have eroded the domestic industry's market share and that significant price disadvantages experienced by the domestic producers combined with considerably underutilized manufacturing capacity of the domestic producers has detrimentally affected the profitability of the industry.
- 5.2. The Commission concluded that an increase in the rate of duty on the subject products would improve the domestic industry's utilisation of production capacity and price-competitive position in the face of stiff competition from abroad without having an undue cost-raising impact on downstream industries and consumers.
- 5.3. The Commission decided that the duty be reviewed after a period of five years, to determine its impact on the industry's further development, competitive position, and on the full industry value chain.

6. **RECOMMENDATION**

In the light of the foregoing, the Commission recommends that the rate of duty on paper and paperboard fibres combined with plastic film, printed and the thickness of the plastic film may not exceed fifty microns; and other paper and paperboard, cellulose wadding and webs of cellulose fibres, combined with metal foil, printed and the thickness of the metal foil may not exceed fifteen micron, classifiable under tariff subheadings 4811.90.90 and 4811.59.90 respectively, be increased to 5% *ad valorem*.